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Casino Journal's Annual Review of New Slot Machine Technology

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Exhibit C2 to First
Response

Exhibit C2

Silicon Gaming Road to recovery

"Wagering attractions" and online promotions for operators, internal restructuring and outside alliances start Silicon on the road to profitability

In the beginning, it was all about the games. By last year, it was about survival.

They were incredible games, run by a computer platform that had never been tried on a slot machine—radically different, with an off-the-shelf, hard-drive computer serving as the base for a continuous parade of new game software. A new company called Silicon Gaming had merged entertainment and technology in a slot machine.

The multiple features possible with the Silicon operating system—released first in the "Odyssey" multigame slot—resulted in slot games like nothing players had ever seen. Captivating, three-dimensional graphics. Interactive screens that made the player part of the slot game. Multiple bonus events hosted by live-action video characters.

Odyssey spawned a new piece of jargon for the trade—the "multimedia slot." Players, operators, even rival manufacturers were amazed at what this machine could do. Industry insiders eagerly bought shares in the 1996 initial public offering.

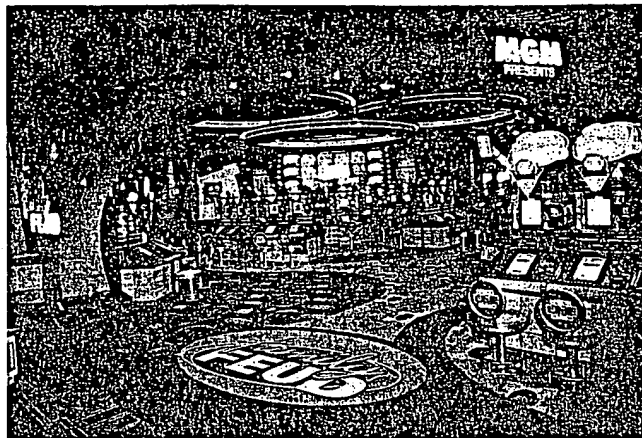
Officials of the start-up company were prepared for an onslaught of demand for Odyssey, with staff, equipment, research facilities and a manufacturing plant capable of churning out 30,000 units a year. At \$12,000 a pop—almost twice the average price of a slot machine in 1996—initial investments would turn to profit in no time.

The onslaught never came. Sales were respectable, particularly for a start-up company, but Silicon was loaded for IGT-style numbers. Inevitably, the losses piled up: \$23 million in 1997, \$37.7 million in 1998.

By spring of 1999, it was clear radical changes would be required for the company to survive. The board of directors removed the original leadership and elevated Andrew Pascal to the position of president and CEO. That fall, with his company looking at another \$20 million-plus loss for the year and a balance sheet that was in the red to the tune of \$92 million, Pascal was charged with selling his turnaround plan to the bondholders, who were on the brink of calling in their notes and forcing Silicon into bankruptcy.

His proposal to the bondholders that fall showed that Silicon Gaming was indeed radically different—and prepared for recovery. The originally massive development and manufacturing staff had been cut by more than 70 percent. The 30,000-square-foot manufacturing plant in Palo Alto, Calif., had been closed, and a new, much smaller plant in Las Vegas had been opened. Three-quarters of the corporate headquarters building in Palo Alto had been leased out. Overall, costs had been slashed by 65 percent.

So far, the Family Feud attraction at MGM Grand has proven this strategy to be a success—both for operator and manufacturer



"Family Feud" is a series of slot machines in a themed "boutique casino" that Silicon calls a "Wagering Attraction" package, a business venture between manufacturer and operator

Silicon would do business differently now, Pascal told the investors. New games would be developed with a team approach, and manufactured on a just-in-time basis. The unit price of Odyssey would be reduced to under \$10,000. To cut down on development costs, partnerships with outside firms would be actively sought. Exclusive deals with operators would be sought for limited-run, proprietary slot games.

It was a solid plan. The bondholders agreed to swap more than \$40 million in debt and interest for 57 percent equity in Silicon Gaming, which led to an additional \$5 million in financing that was available by the end of 1999.

Pascal had gotten Silicon a last-minute reprieve, and had bought precious time to effect a turnaround.

This year, it became clear that none of that time is being wasted. By the end of the second quarter, the company had announced an official restructuring of its operations into three separate business units—product sales, a "Wagering Content Studio" and an "online initiative."

The plan was announced only weeks after the public was introduced to the first completed project of the new Wagering Content Studio—"Family Feud."

The Feud

Family Feud is a series of slot machines in a themed "boutique casino" that opened in June at the MGM Grand in Las Vegas. It is what Silicon calls a "Wagering Attraction" package, a business venture between manufacturer and operator that Pascal says will be the focus of the new Wagering Content Studio. The idea is to develop a slot that will be offered exclu-

sively to one operator within all of that operator's markets.

The operator needs only to commit the floor space and promote the games. Silicon handles design and construction of a themed environment for the games, as well as developing and building the slots themselves, which are provided to the operator on a participation basis.

"When we were considering how to maximize what we do well, we focused on great game content," Pascal says, "and on ways to distribute that game content that don't cost as much money. Through our Wagering Content Studio, we can partner with operators so they can distribute the product through their own channels."

So far, the Family Feud attraction at MGM Grand has proven this strategy to be a success—both for operator and manufacturer.

Based on the award-winning TV game show, the Family Feud series includes three styles of games. One is a standard nine-line video slot; one is a multihand video poker game in the "Five Play" format; and the other is a respin video slot, similar to Silicon's "Hot Reels" game.

The normal, PC-like Odyssey cabinets are replaced by color-coordinated, slant-top cabinets modified with lights and an extra video "game board" screen facing the player. The colors on the slots match the colors of the "boutique casino" itself. They are blue and bright orange—colors almost never seen in a casino—because the themed area is designed to resemble the actual set of the *Family Feud* television show. "Those are the set colors," Pascal says. "It certainly grabs the attention."

A giant painted sculpture of comedian Louie Anderson, host of the current incar-

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nation of the TV game show, stands in the middle of one circular carousel as an attraction to the area. Behind that, visible from practically all of the individual games, is a giant video wall, on which continuous clips from the entire run of *Family Feud* are shown—including the popular original show of the '70s and '80s, hosted by Richard Dawson.

For the games themselves, Silicon pulled out all the stops in maximizing the potential of the multimedia platform. The development effort started with painstaking research, according to Pascal. "We looked at all the slot games out there today, and studied symbol sets, behavior of symbols, and the math of the games. We tried to get a sense of how the combinations were mapped on the reels, so we would have a hit frequency and win frequency that offer a really great game for the player."

The reel-based games feature high payback percentages: The standard multiline video version—a nine-line game in both nickels and quarters, available in 45-coin or 90-coin configuration—ranges from 92 percent to 94 percent overall payback. The multireel, respin game is even better, ranging from 96 percent to 98 percent payback—one of the fairest bets on the slot floor.

This multireel percentage, moreover, can be maximized by the skill factor. As in Silicon's "Hot Reels," the screen displays three sets of three reels each. The player must bet at least three coins to activate all three reel sets. The bottom reels spin to a combination. The player has the option of holding any or all of the reels and respinning the remaining reel or reels to shoot for the highest possible jackpot.

The math of the video poker version—available in Jacks or Better, Bonus Poker or Deuces Wild games—is a bit more difficult to discern. Because of the random bonus awards, the base pay tables on the games are less generous than video poker experts or pros will like. The payback percentages range from 96 percent to 99 percent.

But Silicon met an even bigger challenge in creating the masterful bonus game, which is triggered by three special reel symbols in the video slots or by any four-of-a-kind hand in the video poker version.

The challenge was to create a random bonus event with the look and feel of a television game show that is based on skill and knowledge, while re-creating the TV experience for longtime fans of the show.

Family Feud was created in the mid-'70s by ABC television producer Mark Goodson. It began its first nine-year run in 1976 with Dawson hosting a daily competition between two families to guess the most popular responses to a variety of general-knowledge questions in an audience survey.

There were always enthusiastic shouts of encouragement from the studio audience, as well as among the family members on each team—a festive atmosphere. Dawson would ask the questions, and a family member would give what he or she thought most of the audience members

would answer. The host would then reveal how many of the surveyed audience members gave the same answer. ("Survey says...") Responses that matched audience responses would appear on a large game board in order of preference; a loud buzzer would sound if a contestant gave a response that matched none of the survey responses.

The format earned *Family Feud* an Emmy Award in 1977 and a run as the No. 1-rated game show on daytime television. (The new, syndicated version of the show, hosted by Anderson, premiered last year.)

Creating a slot bonus game simulating all this was a bit more tricky. A large enough database of questions and answers to maintain interest would have to be created. The bonus awards associated with various responses would have to parallel the difficulty of each question and, perhaps most importantly, the outcome of the bonus game would have to be presented in a way that was authentic enough to mask its randomness.

The Silicon platform, with a few new twists, was up to the task. The finished product has a video display facing the player that lights up to look just like the game board used on the TV show—the vertical row of plaques that indicate the rank of each answer.

Silicon made one of its most clever additions to the Odyssey format to add player interaction to the bonus round. To the right of the main video screen is a small replica of a television camera. It is a real camera that captures the image of the player and incorporates it into the game screen during the bonus round.

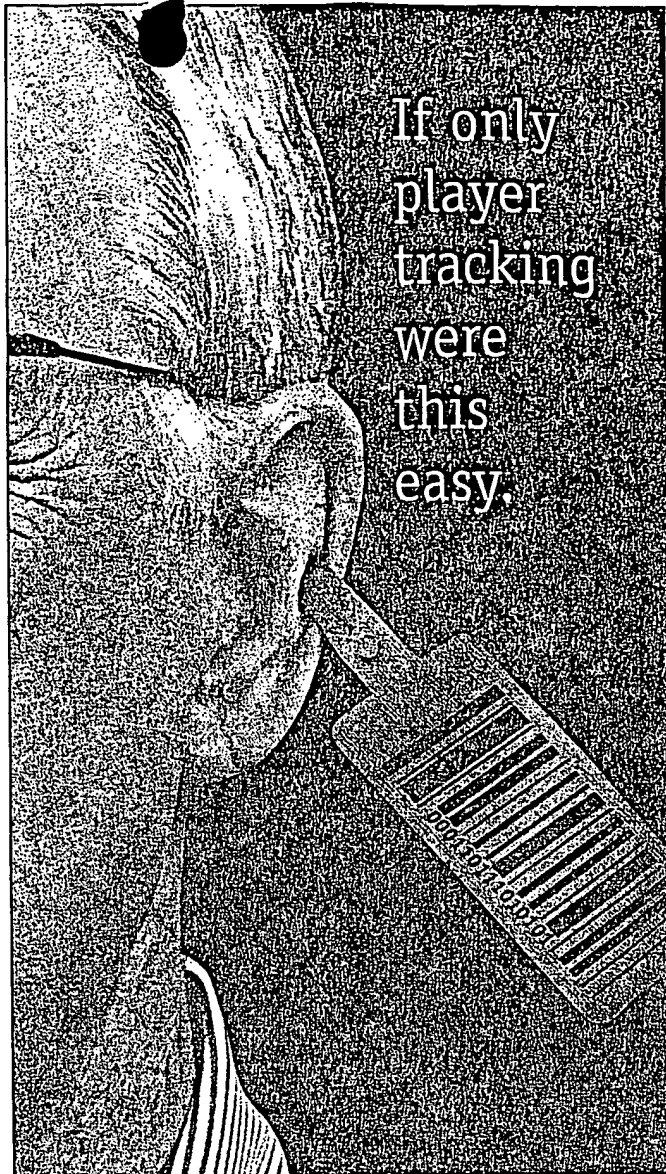
When the bonus round is triggered, the red light atop the TV camera goes on as the main screen turns black. A live-action video image of a "stage manager" appears on a screen in the camera's window. The manager says, "Okay, player...Look over here. We are ready to go in 5, 4, 3, 2..." The camera snaps the player's picture as an "On Air" light flashes.

The main screen then goes into a sequence simulating the TV show. One fictitious "family" is introduced—a typical family pictured in an old-time portrait, the same way contestants are introduced on the program. The family's opponent, the other "contestant," is introduced—the player. His image, captured by the little camera, appears on the screen. The announcer shouts the familiar, "Let's play the Feud!" to the cheers of the crowd and the TV show's theme music.

The screen displays a survey question, and an image of the answer plaque spins around. The player is prompted to stop it by pushing a button—one of the answers appears, to sounds of audience encouragement such as "Good answer!" The announcer shouts the familiar, "Survey says..." If it is one of the top four answers, it appears with a "ding" on the board, along with a bonus amount corresponding to its rank in the survey. If it is not one of the survey answers, the "buzz" sounds as an "X" flashes over the bonus board. (And

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Silicon *Continued from page 87*
the audience goes, "Awwwwww.")

The bonus round repeats with more answers until all four of the top answers are displayed, or until the player gets three "X" marks. The accumulated award then goes to the credit meter.

Questions in the bonus round are selected at random from a database of over 1,000 questions and answers—all from the actual show during its entire run—compiled by the Silicon development team. Pascal notes that while the player is not guessing the answers, the experience of watching the show is reproduced effectively.

According to Bill Hornbuckle, president and chief operating officer of the MGM Grand, the numbers from the first three months Family Feud has been operational—58 of the planned 60 games were operational at press time—show that players like the game as much as Pascal.

"It is performing fabulously," says Hornbuckle. "The Family Feud games are doing four times the house average per unit, by denomination. We only win one game in the house that's beating it, and the per-win figures for Family Feud apply to 58 units of one game. Fifty-eight games in one space is more than we've ever dedicated to any one game."

He adds that MGM is viewing this as the first of several dedicated areas. "If this continues as we hope, we envision two or three of these interactive zones in the casino," he says.

MGM has the exclusive on the game in its core markets, which include Vegas—

where the games are at MGM Grand and New York-New York—and Primm, Nev., where the games are at the MGM-owned Primadonna Resorts properties. Hornbuckle says the win-per-unit numbers coming in from Primm are just as good.

This year's World Gaming Congress provides Silicon the forum to "introduce the Family Feud suite of products to the industry," says Pascal. While MGM has the Vegas and Primm exclusive, Pascal says the company plans to export the game to markets in which MGM does not operate, such as California and northern Nevada.

More New Games

While Family Feud is going to be the focus of the trade show this year for Silicon, Pascal says the company will display a few new games for general distribution as well. The newest is called "Big Buckaroos."

It is a 15-line game with an operator-configurable betting setup—up to a maximum 135 coins. The theme is a rodeo. The 3-D reels are suspended over the scene of a rodeo ring.

There are two separate bonus events. Five clown symbols anywhere on the reels trigger the "Clown Toss Bonus." The rodeo ring is depicted with four barrels inside. A clown enters the ring and climbs into one of the barrels. A bull then charges into the ring and sends the barrel flying. Judges "rate" the bull's performance with a bonus coin amount, after which the player has the chance to accept the win or risk it for a shot at a bigger bonus. If he risks, the clown goes into another barrel for a second shot. The bonus awards for each barrel can be

larger, smaller, or [redacted] at all.

Five bull symbols on a pay line trigger the "Bull-Riding Bonus." Three cowboys sit on the fence of the rodeo ring. The player picks one as his "rider." The cowboy climbs over the fence and jumps on the bull; gates fly open and the rider tries to stay on the bull without getting thrown. The longer the ride, the higher the bonus.

WagerWorks

The remaining space in Silicon's booth this year will be dedicated to a demonstration of "WagerWorks," the product of a joint venture between Silicon and MGM Mirage to create a new distribution and promotion venue for both companies, over the Internet.

WagerWorks, operated through the new Silicon subsidiary WagerWorks Inc., will be an "online gaming community, which will allow people to do "virtual tours" of MGM and Mirage Resorts properties—MGM Grand, The Mirage, Bellagio, Treasure Island, New York-New York and Beau Rivage—and to select Silicon games to play online. The games will mimic the actual Silicon games available in casinos, with promotional prizes that can be redeemed only by traveling to one of the MGM Mirage casinos.

Silicon announced the subsidiary in late August, after MGM Mirage agreed to be the first partner on the network. A variety of Silicon slot games will be available, duplicated for online play through Silicon's proprietary "WagerWare" technology. According to Pascal, the games will allow visitors to vie for cash awards or prize points that can be redeemed at each MGM

Mirage property for vacations, shows, special events and travel packages.

"This is a new channel of distribution for us, which we expect will generate increased exposure to our brands—which will in turn result in more familiarity from players when they see our products on the floor," says Pascal. For MGM Mirage, the website (wagerworks.com) will spread "virtual" views of its properties in cyberspace. "The Internet has proven to be an exciting, emerging medium for both information exchange and entertainment," said MGM Mirage Chairman J. Terrence Lanni in a statement when the network was announced. "Our agreement with WagerWorks will allow us to better leverage the Internet as a marketing tool for our family of properties."

Silicon's new divisions and new subsidiary reflect the company's effort to maximize profit and minimize cost—while maintaining the quality of the product that first caught the eyes of casino patrons.

Pascal says he's confident that the new structure will bring back profit in the short term and stability in the long term. But the spark that will ignite the effort, he says, is the Family Feud series.

"The Family Feud effort has consumed a lot of our energies," Pascal says. "It's the most ambitious project we ever did, and it's doing great. Customers just love it."

"This is going to be a great product for us, and we have a very exciting follow-up brand planned."

He wouldn't say what it is, but judging from "The Feud," it should be an interesting ride indeed—both for Silicon and the playing public. ♣

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